ANNUAL REPORT / GEO. A. HORMEL & COMPANY AUSTIN, MINNESOTA 55912 / FISCAL YEAR ENDED OCT. 28, 1978

Hormel

The President's Letter

The following pages provide detail demonstrating that the past year was a good one for your Company. Although our earnings were down from our record of last year, they were, nevertheless, substantial.

Sales tonnage was down very slightly from fiscal 1977, principally because of the reduction in our output of beef.

Although dollar sales were increased over last year, we are mindful that increases in dollar sales of at least seven or eight per cent are needed merely to keep up with the distortions of inflation.

The Meat Products Group improved upon last year's record earnings and established yet another record. The Prepared Foods Group also developed excellent earnings, although they were down significantly from the outstanding earnings reported one year ago. The financial results of the Operations Group were about the same as last year.

During the year, dividends on common stock were increased for the 10th consecutive year — the increase being one of the largest in our history. Capital expenditures during the year were less than had been projected, due to some unavoidable delays in major construction projects.

One of the most significant achievements during the year was the conclusion of agreements with Local P-9 of the Amalgamated Meat Cutters and Butcher Workmen of North America which will provide the basis for the construction of a major meat packing complex in Austin, Minn. This new facility will replace the original "home" plant, many parts of which have become obsolete and inefficient.

These agreements were without precedent in our industry and were unique. They were tailored to deal effectively with the Austin situation. They result from the best efforts and the good will of earnest and dedicated people on both sides of the bargaining table. It is believed that these agreements, although expensive, were in the very best long-term interests of the shareholders and of the people employed within the Company.

During the past year, questions concerning the continuing use of sodium nitrite in the production of processed foods was particularly bothersome. Your Company has been investing substantial sums in researching and otherwise administering the question. It will continue to do so.

The use of sodium nitrite has not been condemned as a matter of science, nor do we think it will be. Its use has not been effectively banned in any civilized country in the world. A number of experiments in other countries have validated it as a safe, even essential, ingredient. The Company will continue to support the American Meat Institute, the Nitrite Safety Council, and the many other groups which are cooperatively working toward a solution.

The coming year should see the start of construction of the new Austin (Minn.) plant, with completion expected some 2½-3 years later.

With the prospect of at least moderately increased supplies of hogs, we should be able to report a creditable performance at this time next year.

I J Holton

A Business Review

Fiscal 1978 was one of the more satisfying years in Geo. A. Hormel & Company's 87 years of operation.

Operational highlights include a 12.5 per cent increase in sales. Total sales, after returns and allowances, reached a record $1,244,865,000. Total tonnage changed little, although significant tonnage increases were achieved by many of the Company's branded products.

This marked the seventh consecutive year that the Company's annual sales had climbed to new record highs.

Net Earnings
Earnings of $20,039,000 in fiscal 1978 were second only to last year, when your Company reported earnings of $21,951,000. This is a decline of $1,912,000, or 8.7 per cent under fiscal 1977 earnings.

In terms of return on the dollar of sales, net income was 1.6 cents in 1978 and 2.0 cents in 1977.

Earnings per common share were $4.17 in 1978, compared to $4.57 last year, with a lower effective tax rate in 1978.

Capital Expenditures
Capital investments — additions to property, plant and equipment — totaled $15,808,000 in fiscal 1978. This was $4,192,000 less than the $20,000,000 projected one year ago.

Interruption of construction by adverse weather slowed expenditures on the Davenport (Iowa) gelatin manufacturing plant, the Company's largest project of the year. Additional warehouse space was added to the Atlanta (Ga.) and Beloit (Wis.) plants and a new distribution plant was completed in Fresno, Calif.

The Davenport plant will be completed in early 1979. New additions are also planned for the Ottumwa and Knoxville (Iowa) plants, providing the Company with needed processing capacity. During the coming year, construction of the proposed Austin (Minn.) plant will also begin.

Current plans call for capital expenditures of approximately $25,000,000 in fiscal 1979.

Depreciation of $11,551,000 was charged to operations in 1978, an increase of $239,000 over the previous year.

Cash Dividends
Effective with the February 15, 1978, dividend payment, the regular quarterly dividend rate was increased from 28 cents per share to 34 cents per share — a 21 per cent improvement. This

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Sales and gross earnings in the meat packing industry are influenced to a significant degree by the fluctuating cost of livestock and consumers' demand for meat products. The following discussion analyzes significant changes in the major items.

1978 and 1977
Sales increased to a record high in 1978. Net sales were up $138,591,000, or 12.5 per cent over 1977. The increase in 1978 sales and in cost of goods sold resulted from the pass-through of higher raw material meat costs with almost the same tonnage as 1977. Livestock forecasts predicted a greater supply for the last quarter of 1978 which did not materialize. The lower slaughter, coupled with increased consumer demand for meat products, caused higher prices at the wholesale level.

Advertising costs decreased $1,229,000 in 1978 from the previous high of $15,563,000 in 1977. Advertising expenditures were more selective as to media and markets.

Research and Development costs were $798,000 more than in 1977, partly because of research conducted on nitrite, which is an essential ingredient used to cure processed meats. The Company continues its emphasis on new product development.

Interest expense increased $663,000 over last year, or 24.1 per cent, due to higher interest rates on higher average, short-term borrowings of $6,220,000 in 1978, compared to $3,666,000 in 1977.

The effective income tax rate for 1978 was 43.3 per cent, compared to 48.1 per cent for 1977. The percentage for 1978 was less than the statutory rate because of the investment tax credit which is recorded on the flow-through method, foreign tax credit, and net operating loss carry-over to be utilized on a consolidated Federal income tax return.

increased the annual cash dividend from \$1.12 to \$1.36 per share.

Dividends have now been paid to stockholders for 50 consecutive years with increases in the dividend rate during each of the past 10 years.

Pension Trusts
The Company's provision for current and past services under the Employee Pension Trusts amounted to \$13,500,000 for the year.

Past service costs are amortized over a period of 30 years from the date of inception or date of amendment of the plans.

Stockholders' Investment
On October 28, 1978, stockholders' investment amounted to \$166,870,000, an increase of \$13,507,000 over the prior year. On a per share basis, book value equaled \$34.74 for common stock outstanding.

Long and Short-Term Debt
Interest expense increased to \$3,409,000 as greater demand for working capital followed higher prices. Projections indicate that much of the capital required to finance construction of the new Austin (Minn.) plant will be generated internally.

Employees and Organization
It was reported one year ago that members of Local P-9, Amalgamated Meat Cutters and Butcher Workmen of North America, rejected a Company proposal for contract adjustments which would have put the Austin (Minn.) plant in a more competitive position within the industry.

We are now pleased to report that talks with Local P-9 resumed during the past year and concluded this past June, resulting in an agreement which was overwhelmingly approved by Company employees. The Company has since announced that a new meat packing facility would be constructed in Austin.

The resolution of this issue illustrates the excellent relations the Company maintains with its employee groups. The dedication and loyalty of all employees continues to be one of this Company's most valuable assets.

The Hormel policy and practice continues to be to recruit and employ people without regard to race, creed, sex, age, or national origin.

Livestock Projections
Looking ahead, expectations for livestock availability seem to indicate that hog supplies will improve progressively through fiscal 1979. First quarter projections indicate an availability similar to that of one year ago. A modest two to three per cent increase is expected during the last half of the year with as much as an eight per cent increase during the last quarter.

Cattle supplies will be less than satisfactory. Rebuilding of cow herds, along with shortage of fed cattle during the last half of the year, will make operation of the Company's Beef Division difficult.

The Company expects to meet these challenges well and, in so doing, 1979 should be a good year for both employees and shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

1977 and 1976
Net sales were up \$11,442,000 over 1976. The increase can be attributed to increased volume because prices received for our products were generally lower. Sales tonnage was up 7.7 per cent over 1976, which enabled the Company to utilize most of its facilities at optimum operating levels.

Gross profit increased \$27,441,000 in 1977, compared to 1976. This is attributable to a combination of increased sales dollars and reduced raw material costs due to a lower cost of hogs. As a result, gross profit increased to 14.3 per cent of net sales in 1977 from 11.9 per cent in 1976.

Advertising costs increased \$2,972,000 over 1976 as part of the Company's program to increase sales of branded product. Research and Development costs increased \$447,000 over 1976, reflecting the Company's increased emphasis on development of new high-quality products.

Interest expense decreased \$1,428,000 in 1977 due to lower average short-term borrowings of \$3,666,000 in 1977, compared to \$23,700,917 in 1976.

Income taxes were \$20,355,000 for 1977 and \$11,419,000 in 1976 with an effective tax rate of 48.1 per cent and 43.7 per cent, respectively. The change in effective rates reflects the relative effect of varying amounts of investment credit.

Earnings were the highest in the Company's history at \$21,951,000, an increase of \$7,234,000 over 1976. Net income equaled 2.0 cents per dollar of sales in 1977 and 1.3 cents per dollar of sales in 1976.

As Others See Us

Almost 200 years ago, the Scottish poet Robert Burns longed "for the gift to see ourselves as others see us." It would, he predicted, "from many a blunder free us, and foolish notion."

Thanks to modern consumer research, this gift is now available and, in March, 1976, a research program was undertaken to evaluate the strengths and equities of the current Hormel design system. The objectives, all designed to measure the effectiveness of the Company's corporate identity, were several-fold:

- To determine the consumer images and awareness levels of the *Hormel, Mary Kitchen, Dinty Moore, Cure 81, Range Brand, SPAM, Wranglers, Old Smokehouse, Black Label* and *Curemaster* brand names.
- To determine the strengths of the Company's existing modular design system, including the lettering style, bands or bars, parsley sprigs and color.
- To evaluate and appraise the visual impact of the current Hormel signature and the imagery it communicates to the consumer at point-of-sale.

A research project, based upon extensive personal, randomly-selected interviews in Los Angeles, Calif., and Atlanta, Ga., revealed that portions of the Hormel design system were very strong while other elements were in need of modification. Survey findings indicated that Hormel has a positive image among most respondents. Results also showed that use of the Hormel signature with the traditional modular bars gave consumers confidence that the product was of high quality.

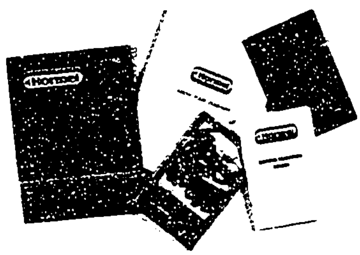
The modular design was shown to have strength by its combination of elements — unique colors, bars and parsley. When any of these elements were removed, or when the signature was used by itself (red Hormel with green parsley sprigs on each end), the strength of the Company brand, as perceived by these respondents, was weakened. Test results also showed that a more appealing lettering design should be used.

What has developed, with examples here and elsewhere in the 1978 Annual Report, is a new Hormel signature — one that is eye-catching and succeeds in grasping and holding attention. It has specific identity, is unique and distinctive. Optically, it seems to move. Still more important, it has psychological appeal which, we believe, provides favorable associations and connotations for Hormel.

Corporate Identity

The need to identify a product, service or an occasion is as old as history itself. Think of the sun god, a mark of ancient Europe, or the cattle brands of the American West.

Due to the faster tempo of the age in which we live and the seemingly ever-changing business environment, however, it becomes increasingly necessary to communicate effectively with today's consumer. Unique and more effective identification is now more important than ever before.



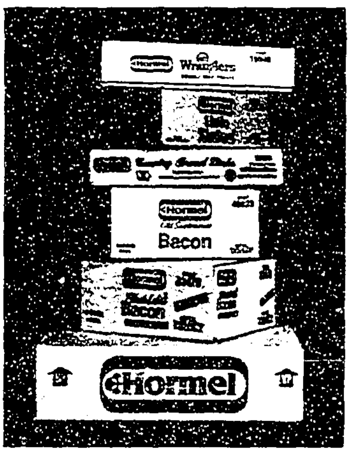
Consistency is one of the most important requirements of an effective program of corporate identification. Through repetition, a signature or trademark becomes a symbol that the consumers can associate with a specific company and its products.

To help attract attention and get the message across, new corporate designs and the coor-

dination of all design items — advertisements, packages and labels, brochures and catalogs, letterheads and signs — becomes important. The new Hormel signature illustrates that concern.

It projects the Company's strengths, particularly its quality image and the integrity of its products. It is more appealing, more attractive, and more distinctive, assuring a significant improvement in consumer recognition. Finally, it extends recognition and identification to all Company product lines, conveying an important "family" relationship to consumers.

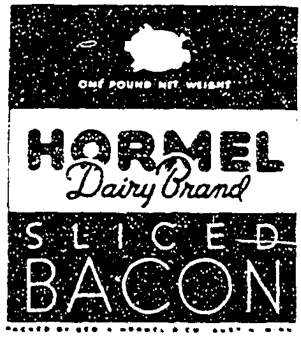
Our New Signature
The new signature reflects the basic equities of the existing modular system — one parsley



sprig, the Hormel name in a red color, and upper and lower elements in green and black. The new stylized lettering design, developed to fit the unique shape of the new signature, offers greatly improved psychological appeal and readability. It can be used as a brand name

(*Hormel* margarine, for example), or as an endorsement on

another product (*SPAM* luncheon meat). Another design change was the use of a deeper



Pictured here are some earlier Hormel signatures used to provide corporate identification. Note the differing lettering styles, design and color selection.

Hormel

red for the Hormel brand name rather than the former red-orange color which created reproduction readability problems.

Implementation
Meaningful changes often do not take place overnight. Many Hormel products are now appearing in supermarket stores with the newly-developed signature. Complete implementation of the new signature will take months, perhaps even years in some applications, to complete. In some cases, the changeover will be made as supplies and materials need replacing.

Eventually, the new signature will appear on almost everything, including the Company's fleet of livestock cars and delivery trucks, in advertising and promotional programs, and in stationery and service literature.

Foremost usage, however, will be readily apparent on the Hormel product lines — a huge "family" with over 750 different items on the supermarket shelves today.

Operations Group

Increased levels of efficiency and productivity by the Operations Group, in the face of record material costs and inflation, have resulted largely from the Company's continued capital investment and expansion programs. This emphasis on improved efficiency and productivity was present in all divisions of the Operations Group as programs continued towards the replacement and upgrading of production facilities.

Of major significance was the opening in October, 1976, of the Ottumwa (Iowa) hog slaughtering and processing plant, located in the heart of one of the nation's prime hog producing regions. This plant occupies more than 345,000 square feet, employs more than 500 persons, and is one of the industry's newest plants, containing the latest in technological equipment.

Over 1,000,000 hogs were slaughtered and processed in this new plant during the first 14 months of operation. With the usual and anticipated start-up problems behind, plus an excellent work force and a good local market for livestock, the Company continues to be pleased with the progress of this new facility. This improved volume will provide the Company with substantially greater capacity for production of fresh pork cuts and processed, branded products.

Austin (Minn.) Plant

Hormel has consistently attached great importance to the modernization and updating of its facilities. This commitment to future growth was convincingly demonstrated this past summer with the announcement that Hormel would construct a hog slaughtering and processing plant in Austin, Minn. This new facility will replace the Company's existing "home" plant, portions of which are still on the original 1891 plant site.

The proposed 750,000 square foot plant will be a showpiece of modern meat processing techniques. It will be one of the largest of its type to be built in the United States during the past decade.

It will be a full-line pork processing operation. In addition to fresh meats fabrication, processed meat products such as fully-cooked boneless hams, sliced bacon, wieners, sliced luncheon meats and sausage items will be produced.

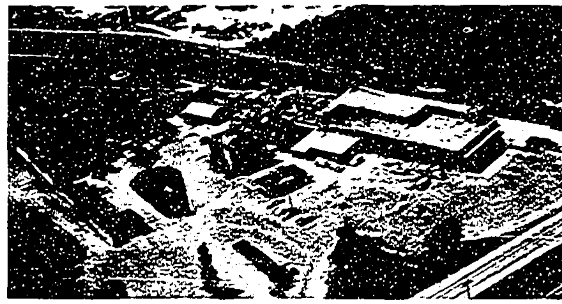
A complete dry sausage operation will be included for the manufacture of such products as *Di Lusso* genoa salami and pepperoni. Canning facilities will be provided for many of the Company's grocery products items, including *SPAM* luncheon meat, canned hams and bulk luncheon meats. New equipment will be installed for the production of customized oils and shortenings.

The new plant will cover 18 acres of land directly north of the present facility. Basically a one-story plant with mezzanine and service tunnels, this single-floor layout will provide for more efficient movement of all processing operations and improved working conditions for employees. The plant will be divided into several sections — offices, processing areas, coolers and freezers, stockyards, rendering, dry storage and shipping.

All of the engineering innovations developed by the Company

Unswerving adherence to quality is evident in the workmanship of these people and at every step of production.

Austin (Minn.) plant to be replaced.



Mitchell (S.D.) plant to be closed.

over the years will be incorporated into this new facility. This includes an all-new Company-developed hog processing operation, now being installed at the Fremont (Neb.) plant, and a highly-automated shipping system. Technical advances will also be evident in new dry sausage processing ovens, dry room and materials handling operations.

All these innovations and the design work and blueprinting projects now underway emanate almost totally from the Company's Corporate Engineering Division. Construction is expected to begin in early summer with an anticipated 2½-3 years before completion. When fully operative, this will be the largest plant within the Hormel organization and one of the largest of its kind in the meat packing industry.

Mitchell (S.D.) Plant

A difficult decision was reached in mid-1978 to close the Company's Mitchell (S.D.) hog slaughtering plant, effective August 17, 1979.

A continuing downward trend in the supply of hogs in the Mitchell area, obsolesence of the plant structure itself, and the increasing costs of meeting environmental and energy regulations were the primary reasons cited for the closing. Employee losses will be minimized during this long phase-out period. Transfer rights were made available to certain other Hormel plants.

The closing of plants is always an unpleasant and painful task because of its impact on loyal, dedicated employees and the communities in which they live. But the alternative — the continued operation of an unprofitable facility — could eventually jeopardize the future of the rest of the employees and the Company's objectives for planned growth.

Beef Division

The beef operations showed sizable improvement in 1978, attributed primarily to the closing of the Austin (Minn.) and Fremont (Neb.) beef facilities.

Hormel continues to maintain beef processing plants in Miami, Okla., and Springfield, Mo., and has contract beef plants in three Midwestern cities — Huron, S.D., Scottsbluff, Neb., and Rockville, Mo.

Hog Skinning Operation

After nearly three years of extensive research and design work, along with the cumulative efforts of many people, installation of the new Company-created hog skinning process will be completed at the Fremont plant. This new system has been designed to offer improved labor, sanitation, energy and space-saving efficiencies. It is expected to prove so successful that installations are planned for other Hormel plants.

From farm-to-table.

Feed Division

Improved breeding, scientific feeding and professional management practices are essential to production of the lean, red meat that is favored in stores, restaurants and homes. Research tests and studies directed towards achieving this objective are conducted daily at the Company's Research Farm, located south of Austin, Minn., and in activities of the Feed Division.

The Research Farm is primarily a confinement swine operation, although a small beef cow-calf facility is also maintained.

Providing quality food products.

Primary emphasis is placed on swine nutrition and management.

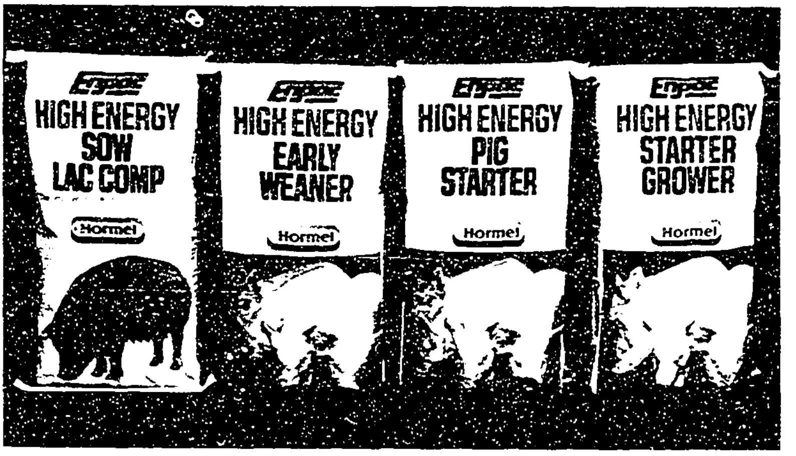
The Feed Division utilizes these facilities and others at the Austin plant, seeking to determine the kind and amount of ingredients needed for the manufacture of supplemental feeds. These formulated feed supplements are then fed to hogs, cattle, lambs and poultry with home-raised forages and grains.

In the past year, the Hormel Feed Division introduced a new high energy feed, under the trademark *Enpac*, which is designed to overcome the costly energy shortage problem prevalent in young pigs.

An estimated 25 per cent of all pigs die before weaning, with most losses traced to the lack of energy in newborn pigs. *Enpac* feeds were formulated specifically to furnish that additional energy in the form of fat at double and triple the levels previously offered in a dry, pelleted feed.

This new survival program — consisting of Sow Lac Comp, Early Weaner, Pig Starter, and Starter/Grower feeds — is unmatched for providing that much-needed energy. Advantages include a higher survival rate among newborn pigs, high rate of gain, and a 10 per cent improvement in overall feed efficiency. Recognizing that the process of bringing food to the nation's dinner tables begins with the farmer, Hormel hopes that the *Enpac* feed series will result in improved livestock production and marketing techniques.

Visual checks for quality.



New high energy feeds introduced by Hormel.

New feed series in use.

New Marketing Program

Still another important phase of the Operations Group has been the continued development of the *Super Select* pork program. A marketing evolution, meat buyers or retailers are offered fresh pork cuts that provides them with the benefits of lower shipping costs, longer product life, better meat case appearance, and more efficient control of yields. The housewife is assured of receiving lean cuts of meat that offer maximum value in quality, freshness, flavor, variety and convenience.

The Company continues to be encouraged by the steady growth being realized in this area.

These programs to produce improved earnings, along with actions to upgrade or eliminate unsatisfactory operations, are expected to bring the Operations Group closer to its goal of more profitable penetration of the market for consumer-oriented fresh and branded products.

On-line product inspection.

Meat Products Group

Note new corporate signature on these branded products.

The Meat Products Group, responsible for branded and processed foods such as hams, bacon, wieners, sliced luncheon meats, smoked sausage and dry sausage, registered many sales and profit gains through its Route Cars, Distribution Plants, and Dry Sausage Divisions. As such, a major contribution to overall corporate profits was recorded in fiscal 1978.

The Meat Products Group is best known for its emphasis on quality and value which has enabled many of its products to obtain leadership positions in their respective market categories. In 1978, steady growth was achieved through the introduction of established products into new areas, the extension of product lines, and additions of new products.

At the same time emphasis was being placed in these important areas, the Company's new corporate signature began to appear on many of the Meat Products Group's branded products. Although this new mark has already been incorporated on nearly all carton packages — *Range Brand* and *Black Label* bacon and *Little Sizzlers* pork sausages, etc. — transition on film packages is still in the design stage and will be a gradual program.

In-store demonstration table.

Growth Continues

Range Brand Wranglers smoked franks continued to perform well during fiscal 1978. Despite the introduction of many imitations, *Wranglers* outperformed all its major competitors in terms of consumer loyalty, clearly establishing itself as the No. 1 brand nationally. The continued strength of this coarsely-ground, richly-seasoned and heavily-smoked adult frank prompted Hormel to introduce a "companion" product — Beef *Wranglers*.

Also packaged eight-to-a-pound, Beef *Wranglers* have started to show the same consumer appeal as its forerunner did when first introduced five years ago. Versatility in cooking continues to be a most appealing factor for consumers. Both products can be grilled, baked, broiled or panfried, and can be served in a bun; with beans, sauerkraut, or macaroni and cheese; in a casserole; as a breakfast sausage, or cubed for hors d' oeuvres.

Although specially developed for the institutional and delicatessen trade, *Wranglers* Big-4 Franks will be introduced to retail outlets in 1979. They are packed four-to-a-pound rather than eight-to-a-pound and are longer in size than either the

Introduced to retail trade.


Hormel
BEEF
Wranglers
SMOKED BEEF FRANKS
TO HEAT WRANGLERS
Hormel
Range brand
Wranglers
SMOKED FRANKS
Ingredients Beef and Pork, Water, Salt, Corn Syrup, Flavoring, Dextrose, Sodium Erythorbate, Sodium Nitrite.
Packed by Geo. A. Hormel & Co. General Office Austin Minn 55912
KEEP REFRIGERATED
NET WT. 16 OZ.
(1 LB.) 454 g
37600 04378


Perma Fresh luncheon meats.

Range Brand Wranglers or Beef *Wranglers* smoked franks. *Wranglers* Big-4 Franks is the Company's answer to homemakers seeking to prepare a man-sized meal — each frank is a full-quarter pound of eating pleasure.

Perma Fresh Luncheon Meats
Recognizing that consumers have long viewed the Company as a quality manufacturer of ham products, an expanded promotional and marketing program on luncheon meats, called "Ham it Up!," was initiated in late 1978.

Heightened advertising and promotional activities, which referred to Hormel as "the dependable ham people," helped to build consumer awareness of six different luncheon meats — Cooked Ham, Chopped Ham, Red Peppered Ham, Black Peppered Ham, Ham and Cheese, and Smoked Cooked Ham, a new product introduction in 1978. All these items, pre-sliced and vacuum-packed in convenient 4-oz., 6-oz.. and 8-oz. sizes, are sold under the Perma Fresh brand name.

The strengthened marketing program included heavy emphasis on in-store display areas, advertising in print and broadcast media, and special tie-in and related product promotions. The volume growth that developed was a testimonial to the effectiveness of this campaign and provided a solid base for future growth.

New product additions.

In addition to Smoked Cooked Ham, another product, Pepper Loaf, joined the Perma Fresh line in 1978, bringing to 20 the number of luncheon meats now marketed. Consumers are finding these handy-sized products economical and useful for school or home lunches, picnics and smorgasbord platters.

Four new items are planned for introduction during fiscal 1979. They are Hard Salami, Honey Loaf, Pastrami Flavored Loaf and Iowa Loaf.

The consumer image of Hormel as a leader in the boneless ham market was further substantiated in June, 1978, by some 8,000 American homemakers. The National Family Opinion Poll, an independent research organization headquartered in Toledo, Ohio, sent out 10,000 questionnaires, receiving an 80 per cent return.

Homemakers were questioned about boneless hams, their likes and dislikes, brand preferences, and to name, in their opinion, the best quality boneless ham in the marketplace.

Responses to this nationwide questionnaire overwhelmingly favored the *Cure 81* ham, reaffirming once again that this is the best selling and best quality brand in its category.

New Product Introductions
A number of other new products were introduced in 1978 and more are planned for 1979 as the Meat Products Group continues its steady flow of product additions to the retail trade.

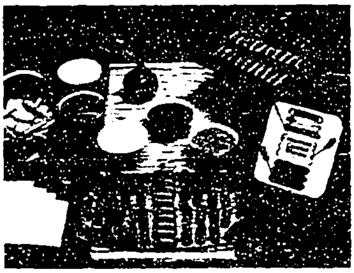
Italian Sausage, a heavily-spiced, smoked and fully-cooked product for Italian cooking aficionados, has moved out of test markets and into national distribution. This new product is packed 10 links per 12-oz. package. It is suggested for use as an ingredient in casseroles, pizzas, Italian spaghetti and other tomato-paste dishes and in "Hero"-type sandwiches.

Smoked Sausage, another new product introduction, is a fully-


Effective advertising is needed.

cooked, skinless product that is marketed three links per 1-lb. package. Kolbase Polish Sausage will be added to this line in early 1979. Both products are aimed at providing consumers with better mealtime versatility. Advertisements and point-of-purchase materials suggest the product be cut for casseroles, sliced for pizzas, cubed for kabobs, chopped for snacks, diced for salads, or minced for scrambled eggs.

Still other new products are showing the potential to further enhance the Meat Products Group's domestic sales in the years ahead.

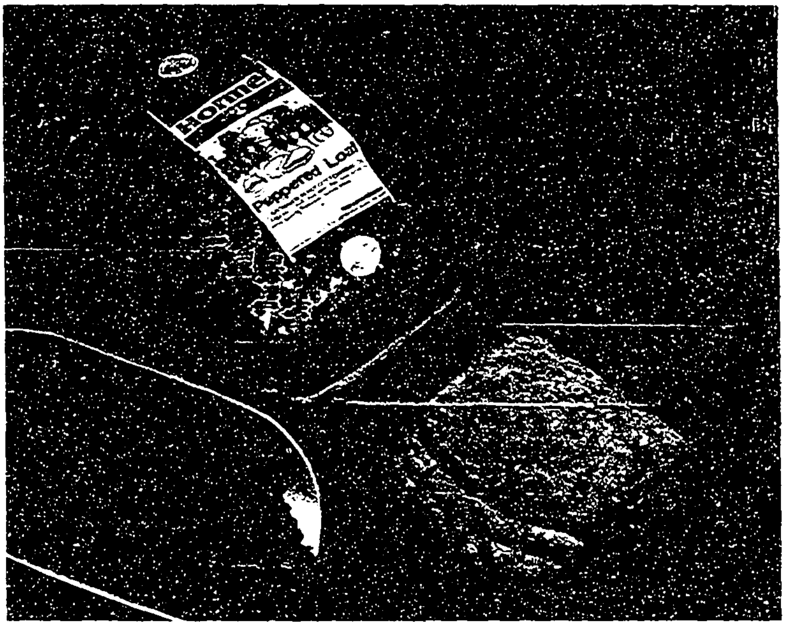


Product introductions in 1978.

Cocktail Smokies, introduced during the 1977 Christmas-New Year's holiday season, and Cocktail Wieners and Cocktail Smokie Cheezers, new additions during fiscal 1978, have produced new sales volume. Marketed in 10-lb. bulk cartons to retailers, who then resell "over-the-counter" in consumer-sized ½- or 1-lb. packages, or to institutional and deli accounts, this new line is gaining popularity as a snack, buffet, hors d' oeuvre, brunch and breakfast item.

New Deli Items

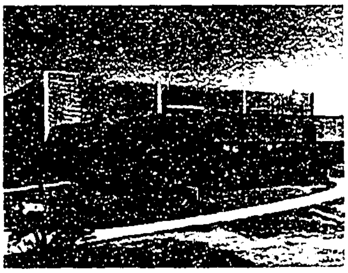
Continuing to respond to the growing interest in the service deli, Hormel introduced two new loaf items in 1978. Honey Loaf and Pepper Loaf are the two additions, joining six other popular loaf items — BBQ, Olive, Old-Fashioned, Dutch, Cooked Pastrami and Deluxe.



New deli items also introduced during fiscal 1978.

Pillow-Pack pepperoni, introduced in late 1977, continues to meet with growing acceptance among pizzerias and supermarkets with their own in-store bakeries and delicatessens. Sold in a 3-lb. vacuum pouch, the pepperoni is loosely-packed, but offers institutional accounts important portion control and product stability and the desired labor-savings feature.

This innovative packaging concept may be expanded to other Hormel dry sausage products during the coming year.



New Fresno (Calif.) plant.

Capital Investments

The new 12,000 square foot Fresno (Calif.) distribution plant was completed this past June. With 75 per cent of the building devoted to refrigerated warehouse and freezer space, capable of holding 700,000 pounds of product, Hormel is now better able to serve the growing Fresno metropolitan and east-central California markets.

Engineering studies and design work is just now beginning on two major dry sausage capital investment projects.

A proposed 25,000 square foot addition is planned for the Knoxville (Iowa) dry sausage plant to provide expanded drying rooms, smokehouses and packaging facilities. This new addition will increase to 130,000 square feet the one-story Knoxville dry sausage plant that was opened in 1977.

Consideration is also being given to the construction of new dry sausage facilities at the Company's Ottumwa (Iowa) hog slaughtering and processing plant.

This proposed addition would give Hormel dry sausage manufacturing operations at five locations — Austin, Minn., and Algona, Fort Dodge, Knoxville, and Ottumwa, Iowa.

Prepared Foods Group

Implementation of new signature on Company products continues.

The strong performance of the Prepared Foods Group during fiscal 1978 was reflected in improved sales of the Grocery Products Division, Food Service Division, and the Industrial Products Division. Consumer demand continued to grow in nearly every category in which the Prepared Foods Group operates. The broad range of products offered encompasses many changing consumer buying patterns; thus, overall demand for the diversified product lines of the Prepared Foods Group remained strong.

Underlying this growth and expansion was the continuing implementation of the Company's new signature on many of the nationally-marketed retail products.

The *SPAM* luncheon meat line, *Dinty Moore* and *Mary Kitchen* product lines, Ham Patties, Vienna Sausage, *Hormel* chili, *Short Orders* individual canned servings, and the growing frozen foods line, now all display the newly-developed Hormel signature. This new mark will be incorporated on other familiar canned meat items once necessary design work has been completed. The conversion to the new Hormel signature by the Prepared Foods Group is expected to be completed by the end of fiscal 1979.

Expanded product line.

New Additions

Tender Chunk ham, introduced in 1976 as a new all-ham product concept, has proven to be a popular alternative to the millions of American households that purchase tuna. Since its introduction, volume has risen significantly and strong market penetration has resulted.

Seeking to capitalize on this success formula, Hormel has introduced two related products — *Tender Chunk* chicken and *Tender Chunk* turkey. Both are produced in a 6¾-oz. size can and, just like tuna, are ready to flake and use. An exclusive one-cook process provides both products with an improved texture and flavor and, like its forerunner, these product additions are proving popular for use in salads, sandwiches, casseroles and snacks.

Still No. 1!

Hormel chili, hot or regular, with beans or without, increased its share in fiscal 1978 as the No. 1 selling chili in the marketplace. At the same time, attention was focused on the introduction of this product in a new 25-oz. (1-lb., 9-oz.) family-size can.

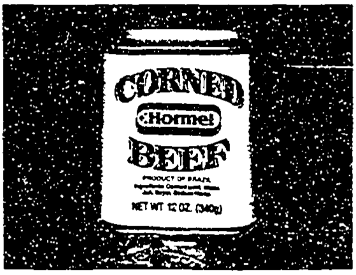
Sales continue upward.

With over 50 per cent of the American families now comprised of two to three persons, the new 25-oz. (three-serving) size can is designed specifically to reach this important new market segment. Test market studies have also shown the new size to be more appealing to retailers as it requires less shelf space and is more visible than the former 24-oz. wide diameter container.

New Label Designs

SPAM with cheese chunks luncheon meat and *Hormel* vienna sausage underwent significant label changes during the year. The label improvements, whether through changes in color, type style or product illustration, are already providing

better visibility and identification of product on the supermarket shelves, resulting in increased volume sales for both product categories.



In test markets.

Hormel is also test marketing a possible label change for 12-oz. corned beef. Sold for many years under the *Dinty Moore* name, new research studies are underway to determine whether a stronger consumer identity would result under the *Hormel* brand. As a result, corned beef is currently marketed under both the *Dinty Moore* and *Hormel* label with consumer acceptance expected to provide the answer as to what brand name will be used in the marketing of this product.

Frozen Foods Line
Cheese Burritos is the latest addition to the Company's Frozen Foods line, produced at the Fort Worth (Texas) plant. Introduced on a test market basis in the southwest and east central areas, Cheese Burritos, with the help of a conventional or microwave oven, provides housewives with a great "on-the-run" snack for kids, or a tasty lunch or festive dinner for the family.

Another new product.

Cheese Burritos represents part of the Company's answer to the public's growing acceptance of frozen meats and frozen foods. Other products marketed through the grocers' frozen or refrigerated meat cases include *Tater Dogs* batter-wrapped wieners, Corn Dogs, Corned Beef 'n Cabbage, Lasagna, Breaded Beef, Pork and Veal Steaks, and Char Beef Steaks and Patties.

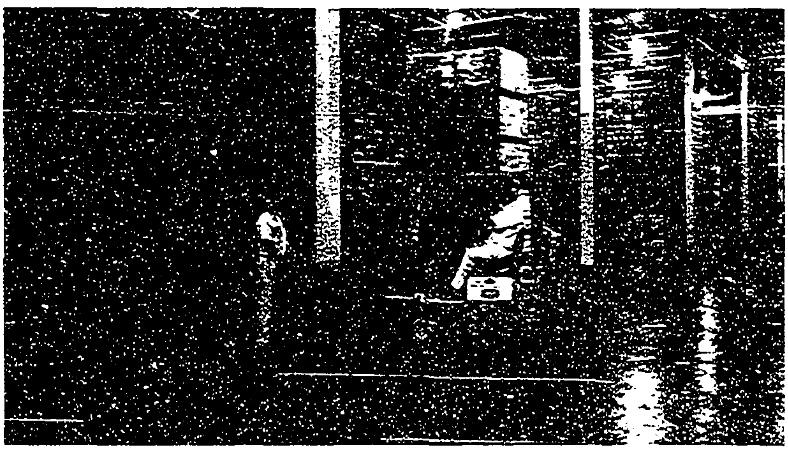
Advertising and Promotion
Throughout the year, the Company's Grocery Products Division promoted its products through spot television and radio commercials and advertising in a host of national magazines and newspapers.

The introduction of *Tender Chunk* chicken and *Tender Chunk* turkey was supported by four-color, full-page advertisements in major women's magazines and newspapers, plus spot television commercials and a direct/mail coupon campaign. Strong, full-color ads in America's favorite magazines — Apartment Life, Good Housekeeping, Parents, People, Redbook, Seventeen, Southern Living, Sunset and Ebony — provided year-round support for *Hormel* chili, along with consistent television time which reached 109,350,000 household impressions from coast-to-coast.

An especially effective effort has been the new 30-second *Dinty Moore* beef stew commercial aired on network television as "The meaty meal that outchunks chunky soups." Billed as one of the biggest promotional programs in *Dinty Moore's* history, Hormel utilized network television during peak selling times, full-color magazine advertisements in America's leading magazines, point-of-purchase materials and special premium promotions to help convey the message that *Dinty Moore* is more chunky than even the "top-of-the-line" chunky soups.

These extensive broadcast and print media advertisements have been primary factors in increasing the market share enjoyed today by many of the Company's Grocery Products Division product lines.

Capital Expenditures
Existing plants and facilities are kept up-to-date with the incorporation of the latest technology to improve efficiency and to assure the highest uniform quality in all Hormel products. New processing and distribution plants (Beloit, Wis.) are constructed on a planned basis to assure adequate capacity to meet the growing needs of the world marketplace.



Expanded warehouse space at Beloit (Wis.) canning plant.

Among the larger current commitments of the Prepared Foods Group is the continued renovation and modernization of the recently-acquired Stockton (Calif.) canning plant. A 15,360 square foot cooler/freezer addition and a 28,000 square foot warehouse area are under construction. Improvements are also being made in the existing plant area and in construction of new office and welfare facilities, all of which are expected to be completed in early 1979.

A 45,500 square foot addition to the Grocery Products Division warehouse at the Atlanta (Ga.) distribution plant, and a 51,000 square foot addition to the Beloit (Wis.) canning plant were both completed during the year. Together, these capital investment projects provide additional warehousing facilities for 20,000,000 pounds of product.

Food Service Division

Frozen entrees for mass feeding are produced at the Company's Oklahoma City (Okla.) Fine Frozen Foods plant. A Mexican trio — Mexican-style Casserole, Mexican-style Beef Stew, and Burrito Grande — were introduced during the year, bringing to 42 the number of frozen entrees now distributed nationally. Included in this category are a variety of beef, combination beef, seafood and dairy, poultry, pork, and smoked and cured meat entrees.

Pork Chow Mein was the Company's latest addition to its line of hot food vending items in 1978. These 7½-oz. products, now numbering 27, are sold to vending and mobile catering markets.

In the portion-control frozen meats line, Beef Pizza Patty with Cheese and Breaded Pork Patty were two new additions.

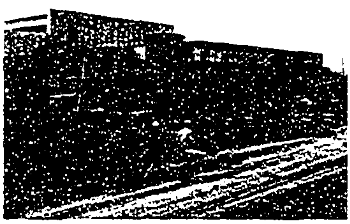
New frozen entree item.

Industrial Products Division

The 100,000 square foot Davenport (Iowa) bulk gelatin plant is nearing completion with a projected May 1st start-up date. The building is nearly-enclosed and installation of equipment and interior finishing work has begun. When operative, the new facility will have an annual capacity of 15,000,000 pounds of bulk coarse mesh gelatin and 3,000,000 pounds of liquid collagen protein.

In addition to this plant, believed to be the finest gelatin facility built within the past 25 years, Hormel also has bulk gelatin and gelatin dessert manufacturing facilities in a completely-renovated 66,360 square foot plant in Austin, Minn.

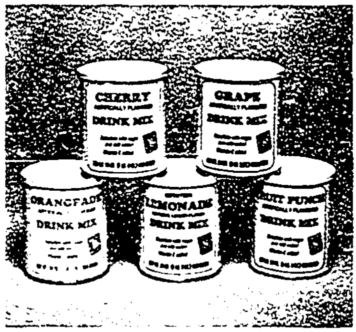
The Industrial Products Division's line of pre-sweetened soft drink mixes and hot cocoa mix



Davenport (Iowa) plant.

New hot food vending item.

recorded sharp consumer gains during fiscal 1978. Drink mixes have evolved into a major product category nationally and the Hormel line, marketed under the *Cool 'n Fresh* brand name, increased significantly its market share.



"Generic" food products.

The Company's "generic label" product line is also meeting with growing retailer acceptance. "Generic" products are sold without any brand names, but marketed with labels reading, "Strawberry Dessert," "Chocolate Pudding & Pie Filling," "Lemonade Drink Mix," and "Instant Hot Cocoa Mix." "Generic" product lines from Hormel include gelatin desserts, regular puddings, instant puddings, topping mix, instant hot cocoa mix, and canister drink mixes.

Extended overall view of Davenport (Iowa) plant.

About the Company

Geo. A. Hormel & Company is a federally-inspected food processor which slaughters livestock for processing into meat and meat products which are sold at the wholesale trade level.

The principal products of the Company are meat and meat products — boneless hams, sausage items, sliced bacon and luncheon meats — which are sold fresh, frozen, cured, smoked, cooked or canned.

Hormel operates 20 plants for slaughtering and/or processing and has 12 distribution plants located along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii.

Hormel operates in international areas, including the Dominican Republic, the Philippines, Okinawa, Australia, and in various European countries, primarily through Hormel International.

The Company's products are sold in 50 states by salesmen operating in assigned territories coordinated from district sales offices located in most of the larger United States cities, and by brokers who handle carload lot sales.

Hormel employs over 8,400 people and has approximately 4,700 stockholders.

Officers and Directors

I. J. Holton, Austin
President and
Chief Executive Officer
Director since February, 1961

Raymond J. Asp, Austin
Group Vice President
Prepared Foods Group
Director since August, 1969

Lee D. Housewright, Jr., Austin
Group Vice President
Meat Products Group
Director since August, 1969

Richard L. Knowlton, Austin
Group Vice President
Operations Group
Director since September, 1974

E. C. Alsaker, Austin
Vice President & Treasurer
Director since November, 1969

Bruce Corey, Austin
Vice President
Engineering & Planning
Director since February, 1960

John R. Furman, Austin
Vice President
Dry Sausage Division

Robert M. Gill, Austin
Vice President
Personnel & Industrial Relations
Director since August, 1970

Stanley E. Kerber, Austin
Vice President
Route Car Sales &
Distribution Plants

Clayton T. Kingston, Austin
Vice President
Pork Operations

Robert F. Potach, Austin
Vice President & Controller
Director since October, 1970

James A. Silbaugh, Austin
Vice President
Grocery Products Division

Donald S. Sorenson, Austin
Vice President
Beef Operations

Byron M. Crippin, Jr., Austin
General Counsel

Charles D. Nyberg, Austin
Secretary &
Director of Public Relations

Don J. Hodapp, Austin
Assistant Controller
Data Processing

Richard W. Schlange, Austin
Assistant Controller
Accounting

Walter B. Stevens, Austin
Assistant Treasurer
Finance

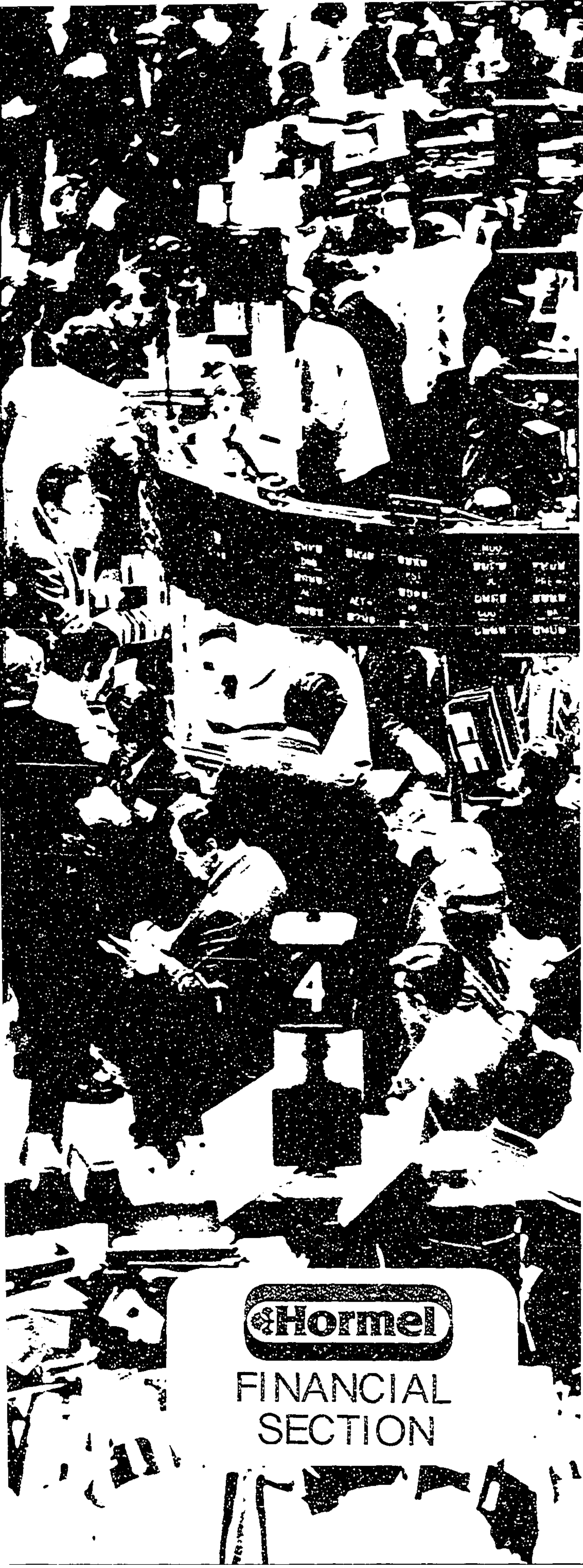
Robert J. Thatcher, Austin
Assistant Treasurer
Taxes

Clarence G. Adamy,
Alexandria, Va.
Food Industry Consultant
Former President
National Association of Food
Chains
Director since January, 1977

Sherwood O. Berg,
Brookings, S.D.
President
South Dakota State University
Director June, 1969-June, 1973,
Re-elected November, 1976

Donald R. Grangaard,
Minneapolis, Minn.
Chairman of the Board
First Bank System, Inc.
Director since July, 1974

Geri M. Joseph,
The Hague, Netherlands
United States Ambassador
The Netherlands
Resigned July 1, 1978



Hormel

FINANCIAL SECTION

Common Stock
The common stock of the corporation (HRL) is listed on the American Stock Exchange.

Auditor
Ernst & Ernst
1800 First National Bank Building
120 South Sixth Street
Minneapolis, Minn. 55402

Transfer Agent
The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Registrar
Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Ill. 60690

Stockholder Inquiries
Communications concerning transfer requirements and lost certificates should be directed to the Transfer Agent. Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912.

Notice of Annual Meeting
The Annual Meeting of the Company's stockholders will be held on Tuesday, January 30, 1979, in the Austin High School Auditorium. The meeting will convene at 8 p.m.

All stockholders are cordially invited to attend.

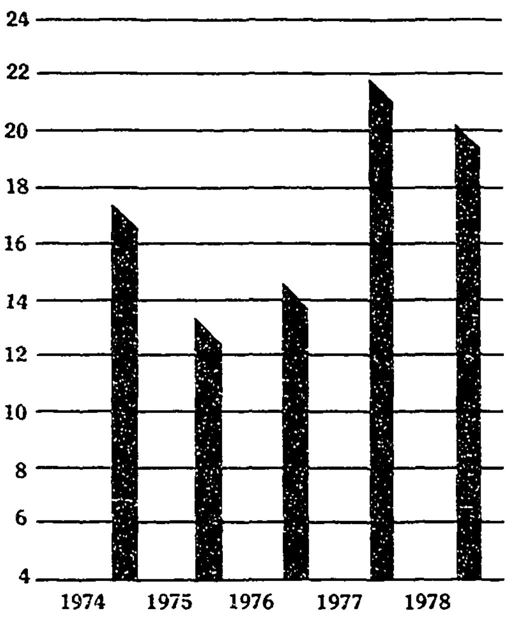
Form 10-K Annual Report
A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended October 28, 1978, will be provided to stockholders upon written request to the Corporate Secretary, Geo. A. Hormel & Company, P.O. Box 800, Austin, Minn. 55912.

Financial Progress. . .
A Graphic Look

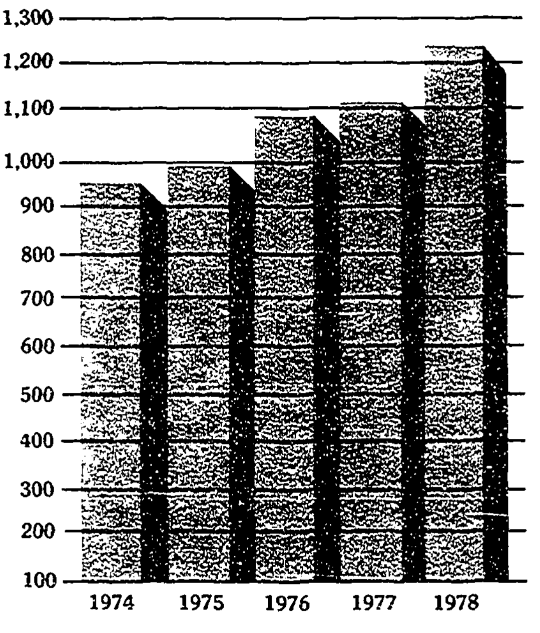
COMMON STOCK DATA

	1978		1977	
Fiscal Quarter	Cash Dividends Declared	Market Price Range	Cash Dividends Declared	Market Price Range
First Quarter	$.34	$22¾-26⅝	$.28	$21-26¼
Second Quarter	.34	21⅝-23⅜	.28	23¾-28¼
Third Quarter	.34	22¼-25¼	.28	23¾-28½
Fourth Quarter	.34	23⅛-27⅞	.28	24¼-29⅞

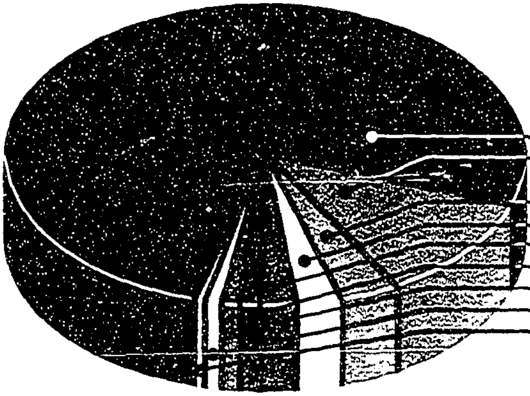
NET EARNINGS
(Millions of Dollars)



NET SALES
(Millions of Dollars)

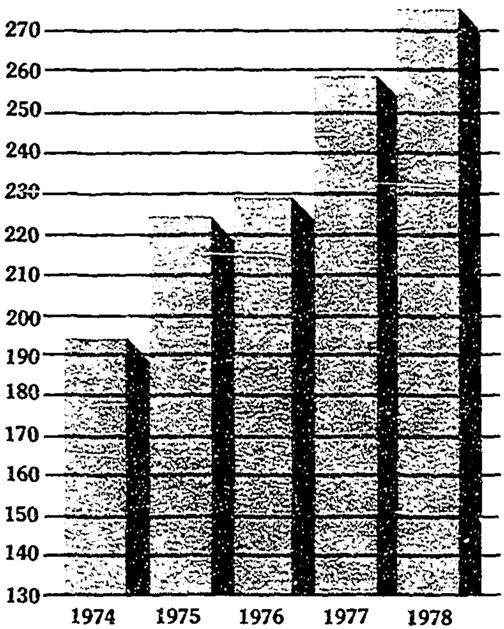


DISTRIBUTION OF SALES DOLLAR / 1978

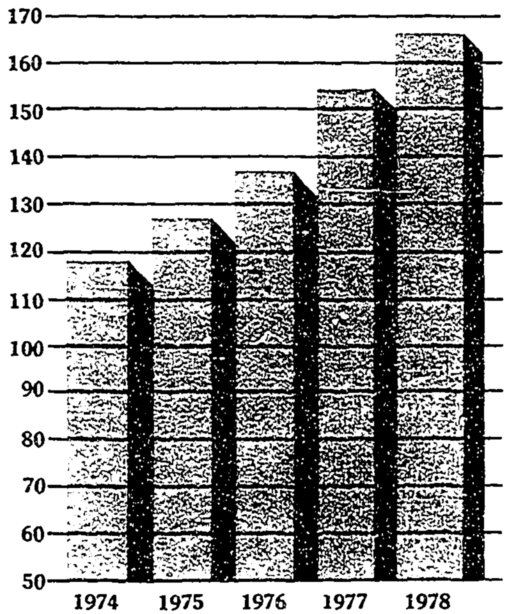


	Cents – Sales Dollar
Cost of Livestock, Supplies etc	*71.71¢*
Wages and Salaries	*12.95¢*
Manufacturing, Selling and Other Expenses	*4 71¢*
Transportation Costs	*3 18¢*
Employee Benefits	*3 16¢*
All Taxes	*1 48¢*
Net Earnings	*1 61¢*
Depreciation	*93¢*
Interest Costs	*27¢*
Total	*100 00*

TOTAL ASSETS
(Millions of Dollars)



STOCKHOLDERS' INVESTMENT
(Millions of Dollars)



Ten Year Review

(In thousands of dollars)

OPERATIONS	1978	1977
Net Sales	$1,244,865	$1,106,27
Net Earnings	20,039	21,95
Percent of Sales	1.61%	1.98
Wage Costs	200,631	191,71
Total Taxes	18,431	23,27
Depreciation	11,551	11,31
FINANCIAL POSITION		
Working Capital	$ 89,298	$ 79,25
Properties (net)	103,992	99,92
Total Assets	275,442	258,28
Stockholders' Investment	166,870	153,36
PER SHARE OF COMMON STOCK		
Net Earnings	$ 4.17	$ 4.5
Dividends	1.36	1.1
Stockholders' Investment	34.74	31.9

*53 Weeks

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

976*	1975	1974	1973	1972	1971	1970*	1969
094,832	$995,593	$943,163	$825,671	$719,755	$686,487	$695,768	$626,017
14,717	13,366	17,369	7,403	7,788	16,664	9,933	9,236
1.34%	1.34%	1.84%	.90%	1.08%	2.43%	1.43%	1.48%
179,588	167,049	151,052	129,419	129,277	127,775	116,921	104,325
14,127	13,102	18,094	8,717	9,431	19,053	12,648	12,260
10,697	9,140	7,667	7,125	6,417	5,435	4,918	3,830
63,957	$ 64,350	$ 48,659	$ 34,256	$ 39,275	$ 43,646	$ 37,818	$ 39,339
97,465	85,398	74,392	67,481	60,178	51,841	45,683	38,767
228,585	224,488	193,696	179,950	149,468	153,144	129,416	115,788
136,792	126,879	117,932	104,654	101,187	96,175	83,081	76,480
$ 3.06	$ 2.78	$ 3.62	$ 1.54	$ 1.63	$ 3.50	$ 2.09	$ 1.94
1.00	.92	.84	.81	.78	.75	.70	.625
28.48	26.42	24.55	21.77	21.04	20.20	17.45	16.07

Statements of Consolidated Financial Position

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	October 28, 1978	October 29, 1977
ASSETS		
CURRENT ASSETS		
Cash	$ 7,039,511	$ 7,671,882
Short-term marketable securities—at cost which approximates market	8,424,145	21,791,957
Accounts receivable, less allowance for doubtful accounts (1978—$435,000; 1977—$265,000)	67,142,564	50,838,009
Inventories of products, livestock, packages and supplies—Note B	83,391,491	73,843,524
Prepaid expenses	1,280,074	1,101,201
TOTAL CURRENT ASSETS	167,277,785	155,246,573
INVESTMENTS AND OTHER ASSETS	4,172,343	3,115,789
PROPERTY, PLANT AND EQUIPMENT		
Land	3,042,809	2,668,216
Buildings	67,325,175	60,976,442
Equipment	117,292,632	116,040,976
Construction in progress—Note G	6,826,518	2,107,316
	194,487,134	181,792,950
Less allowance for depreciation	(90,494,832)	(81,872,074)
	103,992,302	99,920,876
	$275,442,430	$258,283,238

LIABILITIES AND STOCKHOLDERS' INVESTMENT	October 28, 1978	October 29, 1977
CURRENT LIABILITIES		
Notes payable	$ 439,000	$ 794,176
Accounts payable and accrued expenses	71,697,055	65,001,954
Dividend payable	1,633,108	1,344,912
Federal income taxes	3,977,248	8,675,777
Current maturities of long-term debt	233,000	177,000
TOTAL CURRENT LIABILITIES	77,979,411	75,993,819
LONG-TERM DEBT—less current maturities —Note C	28,993,000	28,226,000
DEFERRED INCOME TAXES	1,600,000	700,000
STOCKHOLDERS' INVESTMENT		
Preferred Stock, par value $100 a share— authorized 50,000 shares, issued—none		
Common Stock, par value $1.875 a share— authorized 6,000,000 shares, issued—4,803,258 shares	9,006,109	9,006,109
Additional paid-in capital	2,761,377	2,761,377
Earnings reinvested in business	155,102,533	141,595,933
	166,870,019	153,363,419
	$275,442,430	$258,283,238

See notes to consolidated financial statements

Statement of Changes in Consolidated Stockholders' Investment

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Common Stock	Additional Paid-in Capital	Earnings Reinvested in Business
Balance at October 30, 1976	$9,006,109	$2,761,377	$125,024,693
Net earnings for the year			21,950,889
Cash dividends declared— $1.12 a share			(5,379,649)
Balance at October 29, 1977	9,006,109	2,761,377	141,595,933
Net earnings for the year			20,039,032
Cash dividends declared— $1.36 a share			(6,532,432)
Balance at October 28, 1978	$9,006,109	$2,761,377	$155,102,533

See notes to consolidated financial statements

Statements of Consolidated Earnings

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Fiscal Year Ended	
	October 28, 1978	October 29, 1977
Sales, less returns and allowances	**$1,244,864,900**	$1,106,274,033
Interest and other income	**742,367**	560,335
	1,245,607,267	1,106,834,368
Costs and expenses:		
Cost of products sold	**1,088,336,744**	948,191,739
Selling and delivery	**102,571,865**	97,526,070
Administrative and general	**15,957,743**	16,065,113
Interest	**3,408,883**	2,745,557
	1,210,275,235	1,064,528,479
EARNINGS BEFORE INCOME TAXES	**35,332,032**	42,305,889
Provision for income taxes—Note E	**15,293,000**	20,355,000
NET EARNINGS (Per share—1978—$4.17; 1977—$4.57)	**$ 20,039,032**	$ 21,950,889

See notes to consolidated financial statements

Statements of Changes in Consolidated Financial Position

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Fiscal Year Ended October 28, 1978	Fiscal Year Ended October 29, 1977
Working capital at beginning of year	**$79,252,754**	$63,956,624
Additions:		
From operations:		
Net earnings for the year	**20,039,032**	21,950,889
Provision for depreciation	**11,551,197**	11,312,336
Deferred income taxes	**900,000**	700,000
Other	**336,674**	—
TOTAL FROM OPERATIONS	**32,826,903**	33,963,225
Proceeds from long-term debt	**1,000,085**	750,000
Carrying value of disposals of property, plant and equipment	**185,577**	96,488
Other	—	21,398
	34,012,565	34,831,111
Deductions:		
Payments and maturities of long-term debt	**233,085**	227,000
Additions to property, plant and equipment	**15,808,200**	13,885,891
Cash dividends on Common Stock	**6,532,432**	5,379,649
Increase in investments and other assets	**1,393,228**	42,441
	23,966,945	19,534,981
INCREASE IN WORKING CAPITAL	**10,045,620**	15,296,130
WORKING CAPITAL AT END OF YEAR	**$89,298,374**	$79,252,754
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	**$ (632,371)**	$ (1,904,738)
Short-term marketable securities	**(13,367,812)**	9,548,390
Accounts receivable	**16,304,555**	1,612,820
Inventories	**9,547,967**	17,670,998
Prepaid expenses	**178,873**	273,072
	12,031,212	27,200,542
Increase (decrease) in current liabilities:		
Notes payable	**(355,176)**	(156,872)
Accounts payable and accrued expenses	**6,695,101**	7,103,207
Dividend payable	**288,196**	144,097
Federal income taxes	**(4,698,529)**	4,808,980
Current maturities of long-term debt	**56,000**	5,000
	1,985,592	11,904,412
INCREASE IN WORKING CAPITAL	**$10,045,620**	$15,296,130

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

October 28, 1978

Note A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Hormel and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Investments in foreign companies (the Company's investment does not exceed 50% in any foreign operating company) are included in the financial statements at the Company's equity therein. Exchange adjustments (immaterial in amount in each year) are included in income as they occur.

Segment Information: Hormel is engaged in a single business segment designated as "meat and food processing." As a federally inspected food processor, it slaughters livestock for processing into meat products which are sold at the wholesale trade level. Export sales account for less than 1% of sales. No customer accounts for more than 4% of sales.

Inventories: Inventories are valued at the lower of cost or replacement market. Livestock and the materials portion of products are determined by the first-in, first-out method. Inventoriable expenses, packages and supplies are determined by the last-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful life of the assets are capitalized.

Pension Plans: The Company has several pension plans covering substantially all of its employees. The Company's policy is to fund pension costs accrued which includes amortization of prior service costs over a period of thirty years from the date of inception or date of amendment of the plans.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising from timing differences in accounting for depreciation for tax and financial reporting purposes. Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares outstanding during the year.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October.

Note B—INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately $19,100,000 at October 28, 1978, and $15,800,000 at October 29, 1977, are stated at cost determined by the last-in, first-out method, and are $6,600,000 and $4,300,000 lower in the respective years than such inventories determined under the first-in, first-out cost method.

Note C—LONG-TERM DEBT

Long-term debt consists of:	October 28, 1978	October 29, 1977
9% Notes	**$25,000,000**	$25,000,000
Capitalized leases	**4,226,000**	3,403,000
	29,226,000	28,403,000
Less current maturities	**233,000**	177,000
	$28,993,000	$28,226,000

The 9% Notes are due in 1985 and contain certain provisions and restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt. The Company is in compliance with the provisions and restrictions of the Note Agreement at October 28, 1978.

Note D—PENSION PLANS

Contributions to the Company's pension plans for 1978 and 1977 were $13,500,000 and $12,370,000, respectively. Approximately two-thirds of the pension costs relate to union plans. Under the terms of a three year union contract taking effect in 1977, pension benefits will increase 51% by 1979 spread evenly over the three year period. The actuarially computed value of vested benefits for all plans exceeded the pension fund assets at October 28, 1978 by approximately $43,600,000.

Note E—INCOME TAXES (In Thousands)

The components of the provision for income taxes are as follows:

	Fiscal Year Ended October 28, 1978			Fiscal Year Ended October 29, 1977		
	Total	**Current**	**Deferred**	**Total**	**Current**	**Deferred**
U.S. Federal	$14,269	$13,444	$ 825	$18,893	$18,251	$ 642
Foreign	(239)	(239)	—	(196)	(196)	—
State	1,263	1,188	75	1,658	1,600	58
	$15,293	$14,393	$ 900	$20,355	$19,655	$ 700

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate for fiscal 1978 and 1977 follows:

	1978	1977
U.S. statutory rate	**48.0%**	48.0%
State taxes on income, net of federal tax benefit	**1.9**	2.0
Investment tax credits	**(2.3)**	(3.9)
Utilization of foreign tax credits, net operating losses and other credits	**(2.0)**	—
All other, net	**(2.3)**	2.0
Effective tax rate	**43.3%**	48.1%

Notes to Consolidated Financial Statements (CONTINUED)

Note F—LEASES

Rental expense and future lease commitments are not material.

Note G—CONSTRUCTION IN PROGRESS

The estimated cost to complete construction in progress at October 28, 1978 is approximately $15,000,000.

Note H—REPLACEMENT COST INFORMATION (UNAUDITED)

The impact of inflation on the Company's inventories is not significant because of their rapid turnover. The current replacement of productive capacity, however, would require a substantially greater capital investment than originally made to acquire those assets. The impact of inflation on the replacement of productive capacity would be at least partially offset by improved efficiency in plant layout and lower operating costs.

Estimated replacement cost information for inventories and productive capacity as of October 28, 1978, and October 29, 1977, and the related effect on the cost of products sold and depreciation expense for the year, are disclosed in the Company's annual report on Form 10-K to be filed with the Securities and Exchange Commission.

Note I—QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 28, 1978, and October 29, 1977 (amounts in thousands except per share data).

1978	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
First Quarter	$ 285,518	$ 40,481	$ 5,209	$1.08
Second Quarter	301,125	39,273	3,965	.83
Third Quarter	309,186	36,932	3,277	.68
Fourth Quarter	349,036	39,842	7,588	1.58
	$1,244,865	$156,528	$20,039	$4.17
1977				
First Quarter	$ 269,876	$ 42,178	$ 7,619	$1.59
Second Quarter	271,853	39,408	5,851	1.21
Third Quarter	273,979	36,253	4,458	.93
Fourth Quarter	290,566	40,243	4,023	.84
	$1,106,274	$158,082	$21,951	$4.57

Quarterly gross profit for 1977 and the first three quarters of 1978 has been restated to reflect an internal reclassification between cost of goods sold and selling, general and administrative expenses. There is no effect upon annual gross profit nor upon quarterly net earnings. Fourth quarter results in 1977 reflect an adjustment to net earnings of approximately $600,000 to provide for the loss on disposal of a foreign subsidiary.

Report of Ernst & Ernst, Independent Auditors

To the Stockholders and
Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statements of consolidated financial position of Geo. A. Hormel & Company and subsidiaries as of October 28, 1978 and October 29, 1977, and the related statements of consolidated earnings, changes in stockholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Geo. A. Hormel & Company and subsidiaries at October 28, 1978 and October 29, 1977, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis

Ernst & Ernst

E&E

Minneapolis, Minnesota
November 21, 1978